MOZAMBIQUE

The high cost of peace

After 17 years of civil war, Mozambique's government signed a peace accord with Renamo rebels last October. But the conflict cost US$15 billion dollars, according to United Nations estimates, and left the nation in economic ruins.

The external debt, at US$5.4 million in 1991, is still a heavy burden. Some 80 per cent of Gross National Product (GNP) comes from foreign donations, and since 1990, the Paris Club has agreed to provide one billion U.S. dollars annually to prop up Mozambique's economy.

Although blessed with a wealth of virtually untapped natural resources, the country is now rated among the world's poorest by the World Bank.

Tyre manufacturing in Maputo

The Frelimo government, which took power in 1975, inherited an undeveloped economy based on forced agricultural labour, export of mine labour to South Africa and they provision of port services to landlocked neighbouring states.

Frelimo's early socialist policies proved unworkable and production hit rock bottom in the mid-80s. The new government also faced economic sanctions imposed by colonial Rhodesia and South Africa. Both countries backed Renamo to destabilise Mozambique for supporting black guerrillas fighting in Rhodesia.

Since 1987, the government has followed an economic recovery programme guided by the International Monetary Fund (IMF) and World Bank. In the first year of the programme, Gross Domestic Product (GDP) took a quantum leap from a growth rate of 0.9 per cent in 1986 to 5.5 per cent in 1988. But by 1991, it was back to 1986 levels. Economists in Maputo predict a decline to show negative growth in 1992 and a further fall in 1993.

Several factors are likely to have a harsh impact on post-war economic development. These are the continuing effects of severe drought and the costs of demobilising up to 80,000 soldiers, resettling some six million displaced people, and organising Mozambique's first multiparty elections. To conduct the poll, an estimated US$80 million (half the value of export earnings in 1991) will be required. Virtually all the money for implementing peace and for post-war reconstruction will initially have to come through international aid.

Privatising the country's often cumbersome and heavily indebted state-run enterprises is a key policy in the quest for greater efficiency under structural adjustment. In 1989, Mozambique had around 300 publicly-owned or publicly-run companies, but by 1991, according to industry minister Mr Octavio Muthemba, 120 small- and medium-scale enterprises had been privatised. The first six "large and complex" state enterprises went up for sale in 1992.

Industrial performance is generally poor. According to official statistics, in 1991 this sector contributed only 16.3 per cent to the value of domestic production, while the volume of industrial production fell by 9.6 per cent in 1991 and a further 6.9 per cent in the first quarter of 1992.

The most vibrant part of the economy at present is undoubtedly the small-scale "informal sector". The main branches of formal industry are agro-industry, textiles, wood and furniture, paper, chemical products, glass, minerals and metals.

One sector relatively unaffected by war is fishing, and prawns account for some 40 per cent of annual exports. Large potential markets still exist for lobster, crab, squid and other seafood farming.

In energy and mining, oil, gas and gold prospecting are all attracting investment. South African interests are trying to revive gold mining, while Israelis are digging for emeralds in the Zambezia province. Plans were approved in 1992 for a joint venture with South Africa's Sasol company to build a 900-km gas pipeline from Pande in southern Mozambique to South Africa's Transvaal province. Gas reserves in Pande could exceed 100 billion cubic meters.

The main stimulus to foreign investment will clearly be an end to the war. But the government has also been working on legal changes to make the investment climate more attractive. These include the recent joining of the Multilateral Investment Guarantee Agency (MIGA), to protect investors against non-commercial risks like war, and the United Nations Convention for Resolving Investment Disputes, as well as drafting a new Investment Code to simplify investment procedures.